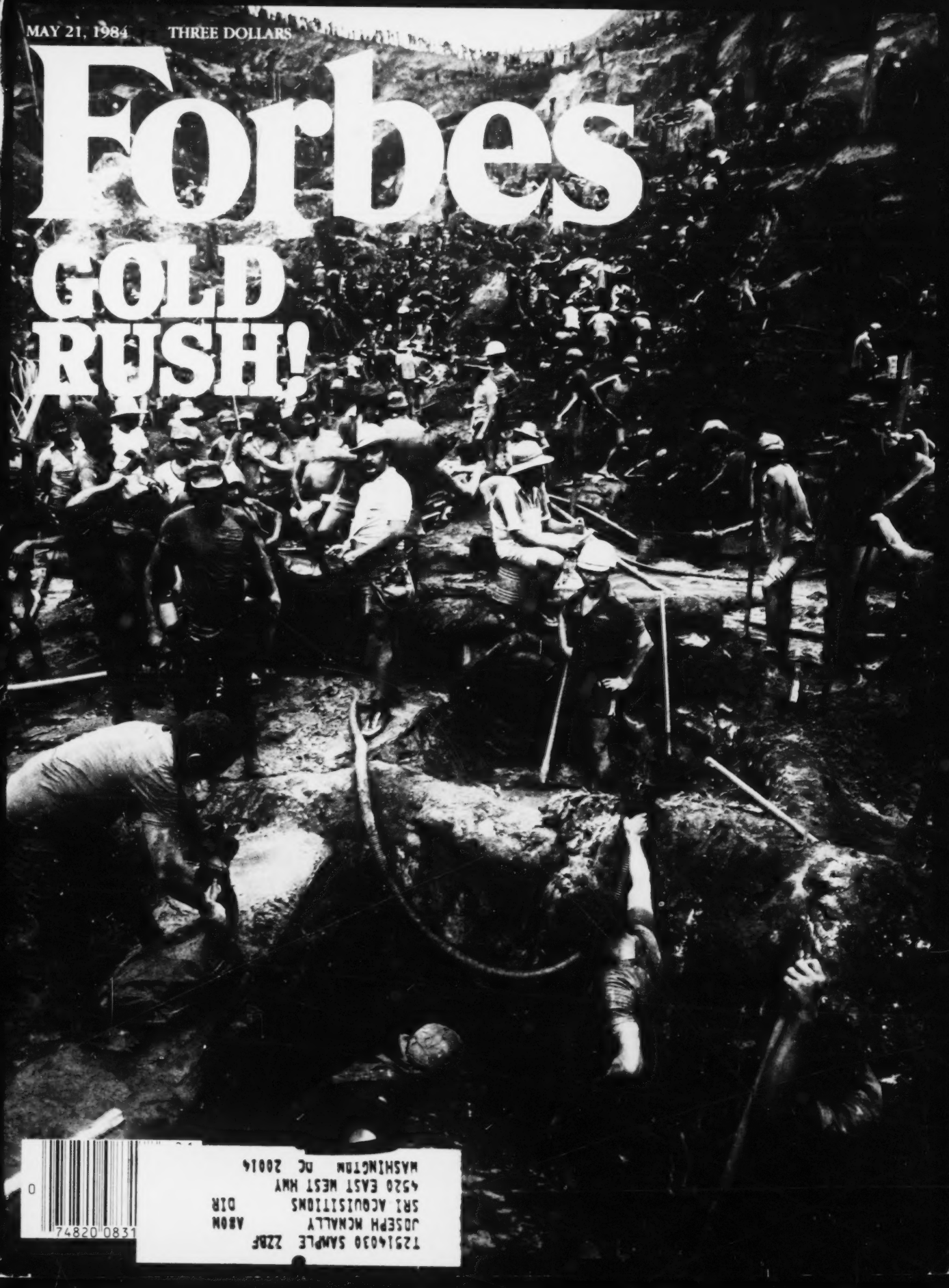
MAY 21, 1984 THREE DOLLARS

Forbes

GOLD RUSH!



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Forbes

May 21, 1984
Volume 133, No. 12

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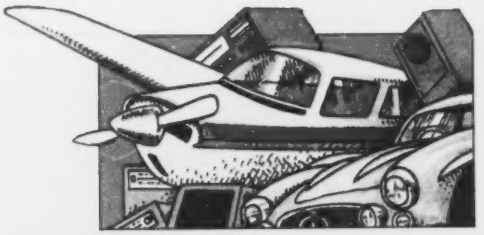

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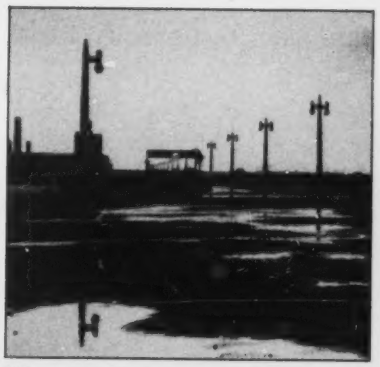

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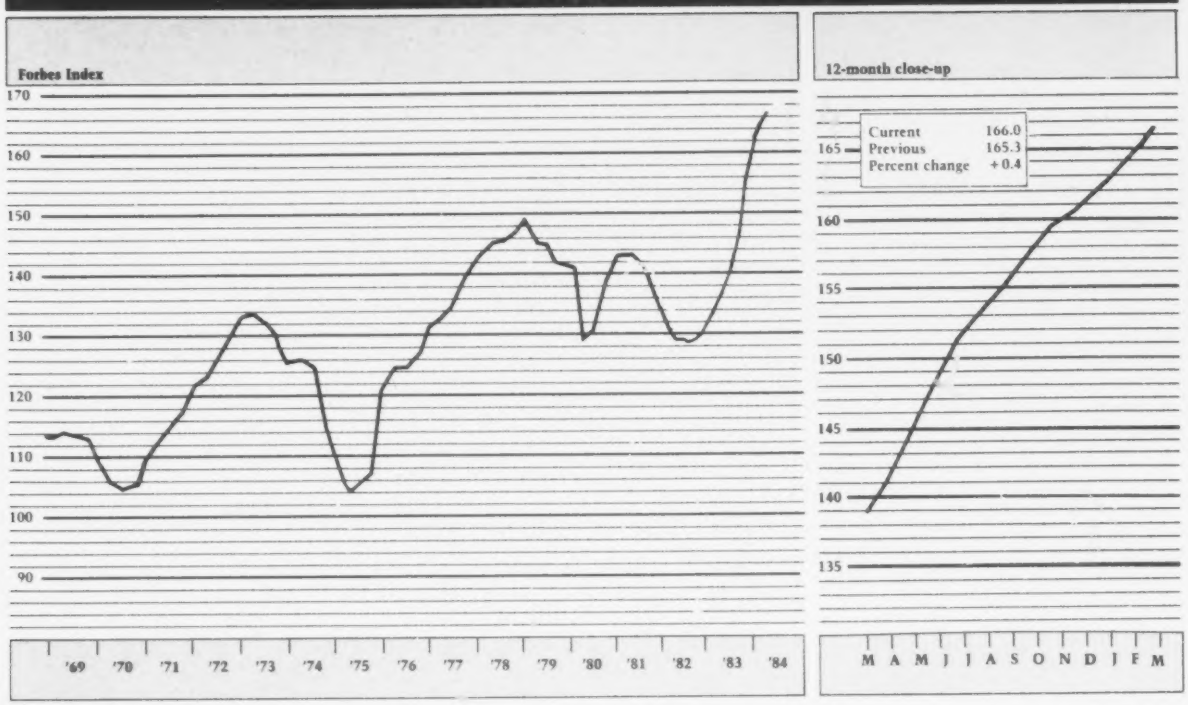
The Forbes Index



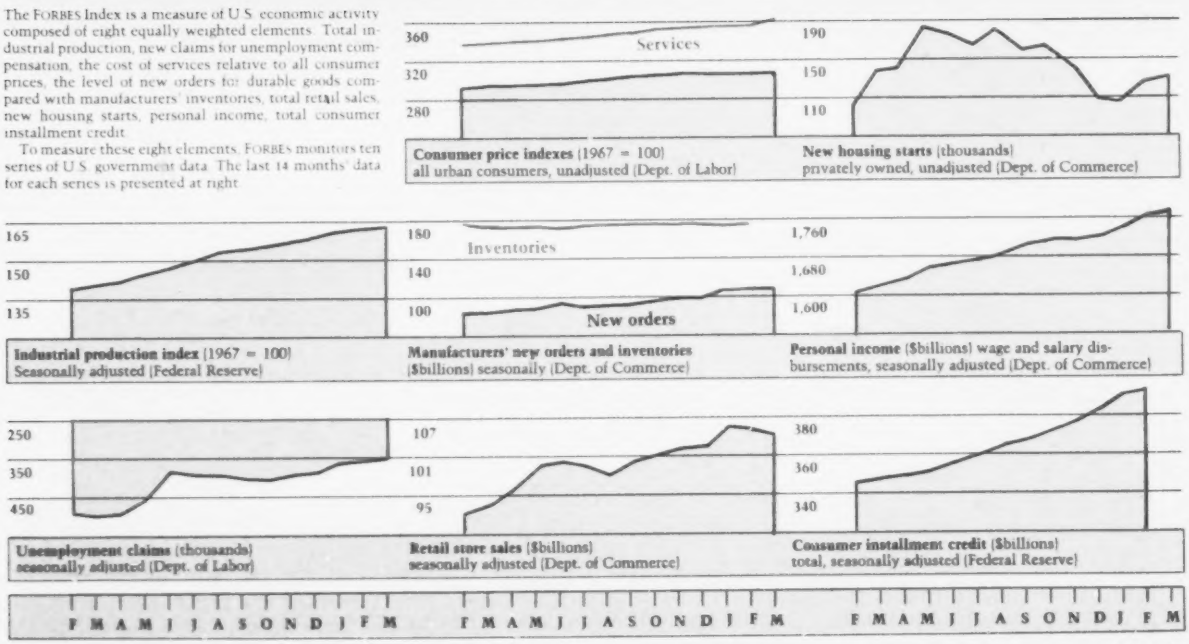
Good news! A hot recovery is cooling off. The Forbes Index is up only 0.4% in the latest reporting period. While this puts the Index at an alltime high, the rate of increase has slowed significantly. This may lay to rest worries that the recovery was about to overheat and self-destruct.

New housings starts, with a 5.5% gain from the previous month, helped the Index grow. So did the healthy 1.7% increase in consumer installment credit. On the negative side, retail sales fell 2.2% in March and, for the first time in five months, new unemployment claims rose—by 1.7%. Watch this number: A resurgence in unemployment could endanger the recovery.

The Forbes Index Components

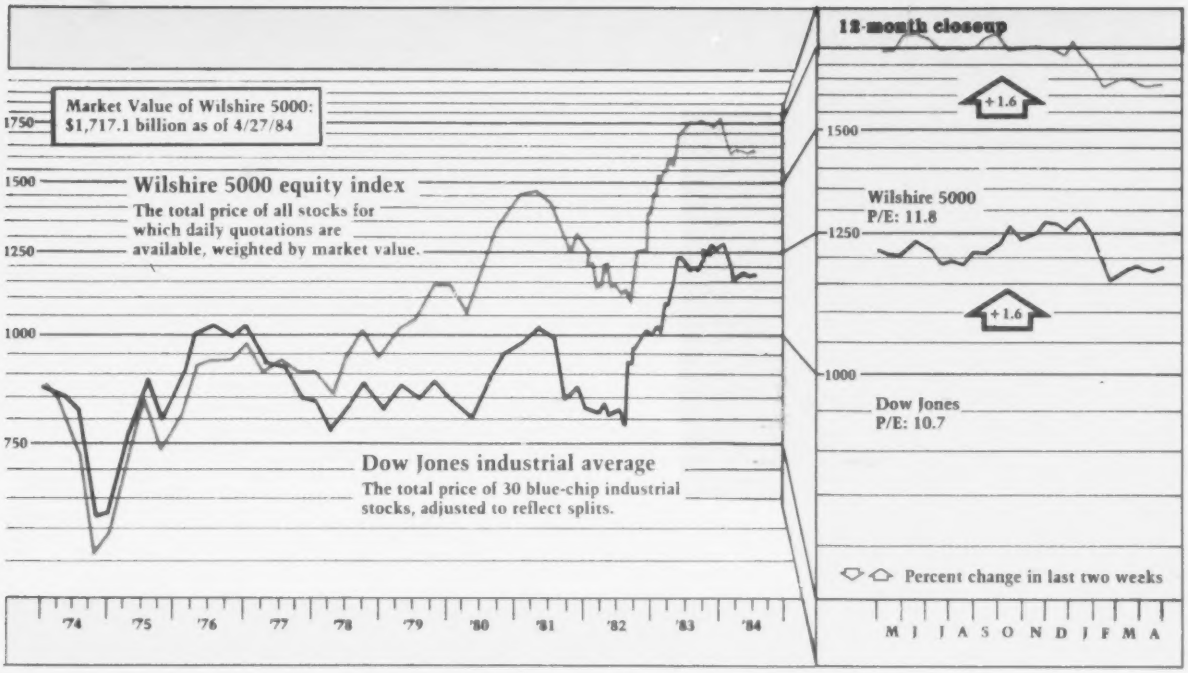
The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series is presented at right.



Shelley Dell

The Forbes/Wilshire 5000 Review



Things could change. The Dow industrials closed at a new low for the year during the last month, three weeks after the Wilshire index hit its low. Since then, however, the market has staged a modest comeback. The Wilshire, which now measures more than 5,500 issues, ended the last two weeks with a 1.6% advance. The Dow industrials and the NYSE index matched that performance. But the Amex, once again, was stronger than the overall market. It posted a 2.2% gain. NASDAQ stocks, on the other hand, continued to be laggards. Their gain was a mere 1.2%.

The market's latest rise, of course, could become just another short-lived technical rally in which prices don't budge from the narrow trading range they have occupied since early in the year. But Wall Street could make a break for new territory before summer is over, or even sooner. Sure, some experts expect a downside move. But optimists point to signs of a jagged economic recovery, which reduces the danger of a resurgence in inflation. Other encouragement: The Forbes 500, a major sector, is selling at 12 times latest 12-month earnings, but at only 8.2 times projected 1984 earnings and 6.6 times projected 1985 earnings. Even with some downward revision in these estimates, the stocks in this group look cheap.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[1]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	0.0	0.7	0.4	0.3	–0.1	–1.5
in last 52 weeks	–4.8	–3.4	–4.7	–2.5	–1.0	–15.8

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[2]		P/E multiple		Dividend yield		Growth profile[3]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	–0.5	–2.6	–3.5	–0.6	–3.3	–1.7	–1.2	–2.4	–3.1	–1.2	0.0	–2.3
in last 52 weeks	–2.9	10.5	–0.6	7.8	–10.7	5.9	6.2	3.4	1.4	5.3	0.1	3.4

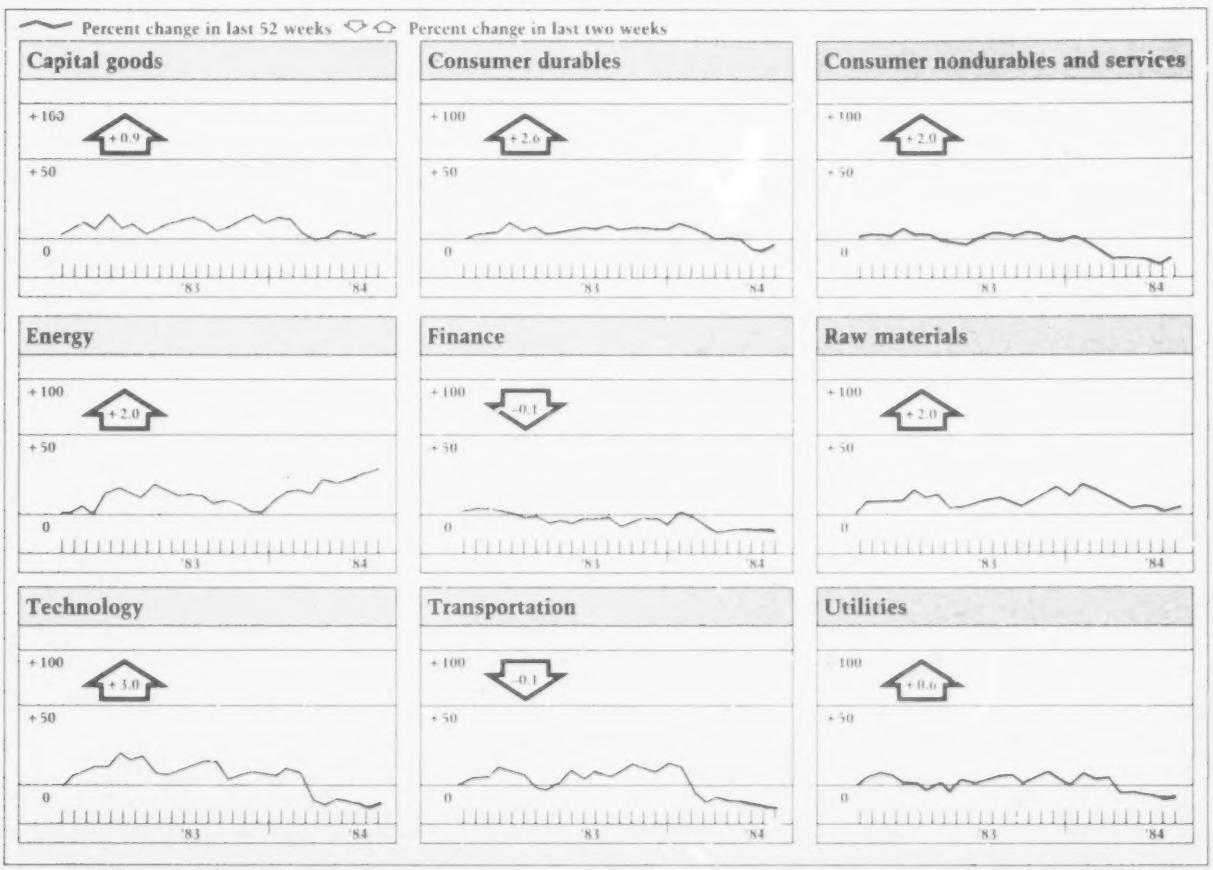
[1]Based on sales.
[2]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[3]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 4/27/84. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

Riding out the storm. During the last two weeks, consumer durables, consumer nondurables, raw materials and energy all outperformed the overall market by advancing 2% or more. Technology issues, up 3%, registered the biggest gain, while transportation and finance shares suffered minor setbacks.

The erosion of 52-week performance continues. Only one group, energy, now sports a gain—up 19.6%. Other sectors have not benefited from merger mania. The Wilshire index is off 4.8% for the year, but six industry groups are even deeper in negative territory. Technology shares show the poorest performance, a 10.9% loss. Consumer durables, off 4.3%, and raw materials, off 1.8%, fared somewhat better than the overall market.



What The Analysts Think

Smaller expectations. Over the last two weeks, analysts have reduced their 1984 forecasts for all sectors except utilities, which are virtually unchanged. Despite record earnings from Detroit, consumer durables show the largest cuts. Even with the latest reductions, however, 1984 and 1985 estimates make many stocks look like bargains.

Forecasting the Forbes 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.72	12.0
1984 estimates	4.21	8.2
1985 estimates	5.11	6.6

Rank based on change in estimate	Sector	Estimated 1984 EPS	% change in 1984 estimate in 2 weeks	in 4 weeks
1	Utilities	$3.60	0.06%	-0.14%
2	Consumer nondurables	2.[illegible]	-0.47	-1.19
3	Capital goods	2.42	-0.54	-0.01
4	Technology	2.01	-0.87	-2.18
5	Energy	2.83	-0.95	-2.50
6	Finance	3.92	-1.40	-2.07
7	Raw materials	3.28	-1.47	-2.02
8	Transportation	2.79	[illegible]2	-3.30
9	Consumer durables	3.25	-[illegible]18	-1.19

Earnings projections are equal-weighted consensus estimates from over 1,800 security analysts. Forecasts for the 9 Wilshire sectors are limited to firms with 3 or more estimates with a mean estimate greater than $0.50. Data are compiled and updated weekly by Zacks Investment Research, a Chicago-based quantitative consulting firm.

Note: All data for periods ending 4/27/84. Prepared by Wilshire Associates, Santa Monica, Calif., Zacks Investment Research, Inc., Chicago, Ill.

Statistical Spotlight

Low in price does not necessarily mean low in quality—in stocks just as in any other type of merchandise.

Bargains below $5

THERE ARE MORE than 5,500 publicly traded shares, and over 1,200 of them now sell for $5 or less. The efficient market works well here, and the majority of these low-priced stocks deserve to be low-priced. Only about half of the group show earnings for the most recent fiscal year, and fewer than 200 earned any money at all during the most recent 12 months.

Is there gold to be found among all these tailings? To do some exploration, we asked our computer if any of these 200 companies that trade below $5 are sound enough to qualify as loaded laggards. These, to our way of thinking, are stocks with a potential value that may exceed current price.

Here are the criteria. We specified a debt-to-equity ratio of no more than 1.0. That eliminated companies with lots of borrowing on their balance sheets. Then, we culled further to find only those companies whose average annual four-year per-share earnings growth is positive. That eliminated moneylosers and declining businesses. Finally, to avoid paying premium prices, we specified that shares sell for no more than twice book value.

What you see below is the result. Note that many of these 25 companies trade well below book value. Some also carry unusually modest price/earnings ratios. This is a remarkable fact, given our tests for strong earnings growth and solid financial ratios.

These, of course, are low-priced stocks. But they carry value, too. Not, for all that, a crapshoot. ■

Stocks that look cheap, but may hold real value

Company/business	Recent price	—Latest 12 month— EPS	P/E	Current ratio	4-year earnings growth	Sales (millions)	Return on equity	Debt/ equity
Alaska Bancorporation/banking	4¼	$1.16	3.7	1.05	29%	$15.6	18.3%	45%
Barco of California/apparel	3⅝	0.28	12.9	3.79	4	24.3	6.3	1
C&R Clothiers/retail	1½	0.12	12.5	1.63	86	36.4	3.1	24
Consumers Financial/insurance	2¼	0.16	14.1	0.53	30	15.5	6.2	37
Dahlberg Electronics/health care products	4⅞	0.39	12.5	2.93	37	17.7	28.5	15
Essex Corp/technical svcs	4½	0.50	9.0	1.91	20	18.2	14.9	0
Gemco National/building materials	4⅜	0.68	6.4	1.91	4	50.8	6.6	60
Harvest Industries/food processing	3¼	0.35	10.7	3.81	1	38.8	8.8	6
Jiffy Industries/leasing	1½	0.77	1.9	0.80	NM	14.5	65.4	31
LCS Inds/marketing svcs	3	0.53	5.7	1.75	133	11.6	31.5	22
Lomak Petroleum/oil and gas	1 1/16	0.07	15.2	1.05	125	17.8	17.5	19
MCO Resources/oil and gas explor and dev	3⅛	0.13	24.0	2.72	52	77.4	13.1	35
Natpac/food processing	1	0.15	6.7	1.24	19	44.8	2.5	44
Noel Industries/apparel	3	0.20	15.0	1.56	59	36.0	5.3	9
Penn Engineering/machinery and construct	1⅞	0.29	6.5	1.31	20	174.8	13.9	35
Peoples Restaurants/restaurants	2	0.22	9.1	1.31	4	25.3	5.8	30
Powell Industries/electrical equip	3½	0.27	13.0	3.28	20	50.7	10.4	3
Rauch Inds/Christmas decorations	5	0.61	8.2	2.12	60	14.5	25.4	14
Sterner Lighting Sys/lighting equip	4⅛	0.15	27.5	2.43	23	31.6	14.4	36
Topsy's Intl/fast food	2⅞	0.35	8.2	1.12	55	16.3	7.7	2
TransNet/computer svcs	2⅛	0.43	5.5	4.82	20	12.2	16.2	2
Treco/real estate	3	1.42	2.1	0.45	2	27.2	38.1	31
Utd Central Bancshares/bank holding	4 1/16	0.38	10.7	1.03	1	116.8	6.6	40
Weiman/film svcs, home furnshngs	3⅛	0.11	35.2	2.03	18	26.1	3.1	67
Yardney/batteries	4¼	0.34	14.0	4.05	22	22.2	11.7	20

NM: not meaningful

Sources: Disclosure II Data on Diskette via Micro-Scan from ISYS Corp.; FORBES

Is it possible to identify companies that are candidates for leveraged buyouts? Here are 31 tempting prospects.

Selling high

By Steve Kichen and Leslie Pittel

THE LEVERAGED BUYOUT game is beginning to get dicey, as FORBES pointed out in a recent cover story *(Apr. 9)*. Nevertheless, it is still going strong and producing fat killings, not only for the dealsters of Wall Street but also for those lucky investors who happen to be in the right place with the right stocks at the right time.

Last month, for example, a management team led by Ralph Schey, chairman and CEO of Scott & Fetzer, proposed to buy the company at $50 per share. Shares in S&F, which does direct selling and makes a variety of industrial products, jumped from 45 on Apr. 13, the day before Schey's offer, to over 54 on Apr. 24.

A few days later, a group led by Ivan Boesky announced that it is also considering an offer for Scott & Fetzer, but at $60 per share. That sent prices up even more, to over $57—an alltime high. Now, management has withdrawn its offer, and S&F seems likely to be sold to Boesky. The result: a potential 30% gain for shareholders in a solid, low-risk company that has rarely carried an earnings multiple

Leveraged buyouts, anyone?

Institutional investors are lining up to participate in the next leveraged buyout, and this rush can be good news for shareholders. Often an initial offer sparks a bidding war in which stock prices move up sharply.

We used our computers to generate this list of mundane companies with low debt ratios and cheap share prices relative to earnings and assets. These qualities make them potential LBO candidates.

Company/business	Recent price	—52-week— high–low	Sales (mils)	Latest 12-month EPS	P/E	Yield	Debt/ equity	Current ratio	Asset turnover	Cash flow/debt
Armstrong Rubber/tire & rubber	15¼	22⅛–15	$ 595	$4.78	3.3	6.1%	35%	2.41	1.6	0.4
Atwood Oceanics/oilfield svcs	18¾	26 –16¼	101	4.31	4.4	—	19	4.04	0.6	3.7
Avondale Mills/textiles	19⅞	25¾–15⅞	302	3.02	6.6	4.0	25	2.50	1.9	1.3
Biltrite/footwear	5⅜	6⅞– 4½	62	0.65	8.3	2.8	15	2.55	2.1	0.8
Buell Industries/auto parts	20⅝	24¼–13½	53	3.00	6.9	1.9	8	3.53	1.3	1.7
Cerberonics/tech engineering & svcs	6¼	11½– 6½	32	0.85	7.9	1.5	0	3.39	2.0	NM
CHB Foods/food processing	10⅝	16⅝–10½	292	1.60	6.6	1.9	19	1.44	2.6	0.8
Cluett, Peabody/apparel	24¼	32¼–22½	867	3.02	8.2	3.7	34	2.34	2.0	0.5
Cobe Laboratories/health care equip	11¾	31 –11	105	1.30	9.0	—	17	3.43	1.3	0.9
Crowley, Milner & Co/retail	21¼	26⅛–18	76	2.96	7.2	4.7	11	2.30	1.9	1.1
Del Laboratories/drugs	20⅞	26 –20⅜	67	2.41	8.7	2.3	34	2.57	1.3	0.4
Firestone Tire & Rubber/tire & rubber	17¾	23⅞–15¾	3,866	2.01	8.8	4.5	30	1.75	1.4	0.6
Glosser Brothers/retail	12	18⅞–11¼	224	1.92	9.8	2.1	12	2.65	5.6	1.3
Goody Products/cosmetics	10¾	18⅞– 9	128	1.24	8.7	2.8	20	3.65	1.8	1.0
Hastings Manufacturing/auto parts	37½	38⅝–21¼	52	3.91	9.6	1.6	7	3.41	1.9	2.1

NM: Not meaningful

Sources: Disclosure II Data on Diskette via MicroScan from ISYS Corp.; FORBES

Leveraged buyouts, anyone?

Company/business	Recent price	—52-week— high–low	Sales (mils)	Latest 12-month EPS	P/E	Yield	Debt/ equity	Current ratio	Asset turnover	Cash flow/debt
Interco/shoes	57	85 –56¼	$2,674	$6.34	9.0	5.1%	20%	4.04	1.7	0.6
Ipco/health care equipment	11¼	18¾– 9¾	171	1.16	9.7	2.7	29	2.31	1.7	0.5
Arthur D Little/consulting	23½	24½–19	181	2.41	9.8	3.0	3	1.65	2.0	4.0
GC Murphy/retail	36⅜	40⅜–26	822	4.22	8.6	3.5	31	2.30	2.7	0.8
Murray Ohio Manufacturing/bicycles	22¾	31¼–20⅜	387	3.53	6.4	5.3	22	2.97	2.1	0.9
Nuclear Metals/uranium recycling	14¼	36 –10½	58	1.79	8.0	—	23	2.34	1.0	1.1
Ohio Art/toys	10	12½– 9	28	1.28	7.8	2.4	31	2.48	2.1	0.5
Phillips-Van Heusen/apparel	20⅜	23⅞–11⅛	455	2.61	7.8	2.0	30	2.63	2.2	0.3
Standard Commercial Tobacco/tobacco	21	27¼–16¾	447	2.96	7.1	2.1	24	1.38	2.3	0.9
Stone & Webster/building	36¼	49⅜–34½	322	4.13	8.8	5.5	5	1.47	0.8	6.5
Strawbridge & Clothier/retail	64	75 –64	472	8.33	7.7	2.8	32	2.07	1.4	0.6
Tony Lama/footwear	15⅜	17¼–12½	86	1.73	8.9	5.2	21	3.61	1.5	0.6
Trans-Lux/electronic displays	12¼	19¼–10⅜	27	1.40	8.8	0.8	24	1.72	0.9	0.8
United States Sugar/sugar	44	68 –35	275	5.84	7.5	—	11	2.30	0.8	1.9
West Point-Pepperell/apparel	38⅝	54⅞–38	1,206	5.78	6.7	5.7	24	2.80	1.7	1.2
William E Wright/specialty retail	9⅜	12½– 9⅜	58	1.00	9.4	4.1	2	3.46	1.5	7.1

Sources: Disclosure II Data on Diskette via Micro/Scan from ISYS Corp.; FORBES

above 10 during the last decade.

Where do you look to get in on similar deals? "What you really want is a modest growth rate, low requirements for future capital spending and a stable cash flow," says Bill Ludwig, vice president at Morgan Guaranty. In other words, leveraged buyouts tend to occur at ho-hum companies involved in manufacturing, distribution and retailing. There can't be much existing debt on the balance sheet either, since a buyout entails lots of new borrowing.

To find the kinds of companies that meet these criteria, we used Micro/Scan software from Massachusetts-based ISYS Corp. and screened the Disclosure II database of more than 5,000 stocks. Since year-end 1983 data are not yet available for all companies, some of our work uses 1982 balance sheet ratios. But these numbers tend to be fairly stable from one year to the next.

We screened for companies with sales of between $20 million and $5 billion. To select firms that would work as leveraged buyouts we included only companies where long-term debt-to-equity was 35% or less. We also specified that cash-flow-to-debt ratios be greater than 0.3. The larger this number, the more quickly a company can pay off its long-term obligations—which is the name of the game in leveraged buyouts.

All the firms on our list also have latest 12-month return on equity of 7% or more, positive four-year average annual earnings growth and a current ratio greater than 1.43. This establishes a minimum level of growth and profitability. To eliminate overpriced stocks, we scratched any company selling at more than 10% over book value or with a price/earnings ratio greater than 10.

Patrick McDonnell

Of our 31 companies, 6 are in the apparel or footwear business. Five retail firms also make the grade. William E. Wright, for example, specializes in sewing materials and notions.

Firestone Tire, meanwhile, is the largest company on our table. If Gulf Oil, with $26.6 billion in sales, almost went private, why not Firestone? Mind you, we have no information that it will, but it bears the earmarks of a company that could.

Computers, of course, don't do buyouts. People do, and the prospect for a firm's future is a part of the equation that our screen misses. Presumably, no one wants to work a leveraged buyout unless he thinks a company's outlook is bright. Another favorable portent: Lots of insider stock ownership, which makes a buyout less costly.

There are other advantages to owning stocks that might appeal to the leveraged buyout boys. Since these companies trade at low prices to begin with, they don't carry the downside risk that accompanies highfliers. And because these firms make sense as leveraged buyouts, they are also attractive as conventional takeover candidates.

How good is this list? Tony Lama, one company that makes the cut, attracted a cash buyer for a block of its stock at presstime. In addition, Riblet Products, which manufactures hardware for mobile homes, showed up on our initial printouts. But it's not on the table. While we were double-checking our statistics, a group of investors headed by Spear, Leeds & Kellogg made a buyout offer. Riblet shares jumped 20% as a result. ■

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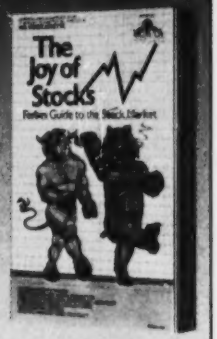

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Venture Capital

Got a plan for a restaurant chain featuring crusty pizzas and animated puppets? Venture capitalists aren't interested.

WHERE THE ACTION IS

By Thomas P. Murphy

Every venture firm's morning mail brings its fresh quota of gold and oil deals, movies, real estate, construction and what have you.

In the minds of the entrepreneurs who wrote those proposals, anything goes in the venture business. All you have to do is find the right venture capitalist. Eventually, they hear: "Your proposal is not within our current range of interest."

Is that just a polite way of saying, "That's one of the dumbest ideas we ever heard"? Not necessarily. What these budding entrepreneurs have really come up against is that venture capitalists invest in a fairly narrow spectrum of industries and types of businesses.

There are reasons other than blind habit for this tendency. Stanley Pratt, head of Venture Economics Inc. of Wellesley Hills, Mass., explains it this way: "Seventy-five percent of venture investment is productivity related. The money is invested in products or services that save the end user money. Computers do this. Even in the medical and genetic engineering fields, the venture-backed companies usually have a productivity story."

But habit—put more accurately, experience—does shape the preferences of venture investors. As Pratt puts it, "Venture capitalists are comfortable when they understand the market."

Where do they find this comfort? Venture Economics Inc.'s 1981 and 1982 figures show where the venture money has been going. The 1983 numbers are being run now, but they provide no shocks. There are trends but no radical departures.

Venture investments by industry:

	Percent of dollar amount invested	
Industry	1982	1981
Computer related	42%	30%
Other electronics	14	12
Communications	10	11
Medical/health	6	6
Energy	6	10
Consumer	5	5
Industrial products	4	5
Genetic engineering	3	7
Industrial automation	3	4
Other	7	10

Funds going to computer-related companies, for instance, grew even larger in 1983. According to Pratt's preliminary numbers, these companies got nearly half of the $2.6 billion or so that the venture capitalists invested last year. CAE was the big new category for investment in the computer field. What's that? Computer-aided engineering. It is now a red-hot field for venture money. Software remains big, too, especially software that increases the productivity of software writers.

Fading, in that broad category of "computer-related," was semiconductor fabrication. Most venture firms already have their bets down on VLSIs (very large scale integrated devices) or companies whose products will help manufacture them. Communications, overall, probably got about the same share of venture money in 1983 as it did in 1982 and demonstrated the rapid melding we

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are now seeing of the computer and telephone networks. The big, newer category of communications investment was the digital switch, or PBX. This innovation represents a major advantage over the older, analog switch since it has the ability to carry efficiently computer data as well as voice.

The medical field has always been an enticing but difficult one for venture money. The rigors of the Food & Drug Administration's testing procedures, along with perhaps a decade of time and an investment of $1 million or more, long ago drove venture investors and small businesses in general out of the drug field. But venture people continued nibbling, with considerable success, at companies in medical instruments and devices. Now, with medical dollars constricting for the first time in living memory, the venture people have managed what has proven to be a nice sense of timing. Last year they switched their emphasis to companies that offer hospital management services.

Many smart venture capitalists swore that they would never again get into developing new drugs. But an exception to that resolve has turned up in another category, genetic engineering. While venture-backed genetic engineering companies tended to push into plant and animal research to avoid the FDA problem, the possibilities of a blockbuster new drug—a cancer cure, for example—are so enticing that venture money has come back.

Industrial automation is a time-honored, though relatively minor, category for venture investment. There was a time when that meant industrial process control. Today it means robotics.

So, if you have an idea that needs venture money, remember: The common thread in 1983's investments, as Pratt points out, is productivity. If the product or service increases productivity, a venture capitalist can analyze the business plan and reach a reasoned conclusion about it. That is what he is good at doing.

On the other hand, if the plan calls for opening a chain of restaurants featuring crusty pizzas and animated puppets, that might be a tough sale in today's venture capital industry. ■

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